

**in want of  
a policy** a survey  
of the needs of non-profit  
housing companies and  
cooperative housing societies

**the canadian council on social development**

IN WANT OF A POLICY  
A Survey of the Needs of Non-Profit  
Housing Companies and Cooperative Housing Societies

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the Housing Committee, Canadian Council on Social Development

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## PREFACE

Passage of the 1973 amendments to the National Housing Act aroused the enthusiasm of both community groups and government officials. The new housing programs created by these amendments were acclaimed as a major reorientation of government thinking toward solving the persistent problems of housing costs and shortages.

However, not much attention has been paid since 1973 to the effectiveness of the amendments. It was the purpose of this project, therefore, to sift through the many contradictory opinions that have been expressed and to reach some general conclusions.

It was felt that the most effective way of getting at this information would be through a questionnaire survey, which we conducted in the summer of 1974, of groups active under the new programs. As it turned out, the high questionnaire response indicated that only one angle of the current problems had been examined. As a result, our analysis of the questionnaires in Chapter I is followed by a discussion of the program restraints to growth, both in non-profit and in cooperative housing in Canada.

The conclusions, drawn from our research in the summer of 1974, are particularly critical of the federal government's attitude toward non-profit and cooperative housing. However, while government deserves to take a lot of the responsibility for the failure of this sector to establish itself as a potent "third force" in Canadian housing, the reader should understand that it is not our intention in this report to suggest that non-profit and cooperative groups are the perfect means for providing housing to low and moderate income households. They are by no means perfect. However, many of the apparent weaknesses of this "third sector" are in fact caused by government negligence in failing to reveal many of the advantages of this type of housing development. It is hoped that this report will stimulate more interest in non-profit and cooperative housing as an alternative to conventional approaches, so that the innate weaknesses of the sector can be overcome and that adequate government support may be made available in future.

This project was made possible by a grant under the Department of the Secretary of State Student Community Service program which enabled



me to travel across the country to interview people involved in non-profit and cooperative housing.

I should like to thank the staff members of Central Mortgage and Housing Corporation both at the local, regional and head offices who gave their time and energy to the project, with special thanks to Sylvia Goldblatt and G. R. Hennessey whose help has proved to be invaluable in the completion of this study.

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Finally, I should like to thank collectively all those who contributed to this study by responding to our questionnaires or by making themselves available for interviews. It is hoped that the results, as evidenced in this report, will assist in our efforts to provide better housing for Canadians.

Christopher Haire  
Ottawa

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## FOREWORD

Events of the last decade have shown that if the housing requirements of Canadian citizens are to be met or if new growth is to be guided by sound social principles, then we must move away from traditional approaches to housing development. The Housing Committee of the Canadian Council on Social Development has attempted to play a role in supporting such a change in outlook.

The committee, established following the first Canadian Conference on Housing which the Council sponsored in 1968, has since its inception persistently called on government to readjust housing policies heavily weighted in favor of the traditional suppliers of housing. The committee has emphasized that involving users in the design of government housing programs and of individual housing units is a prerequisite to the required transition. Promotion of non-profit and cooperative housing has been seen as one of the most effective ways to obtain user involvement. Development of housing under non-profit and cooperative sponsors potentially provides Canadians greater choice in design, tenure arrangements and management.

The efforts of the CCSD's Housing Committee, as well as those of others of like mind, began to bear fruit with the introduction of amendments to the National Housing Act in 1972. Although the committee was pleased, it felt the amendments could be improved upon, and stated in its published commentary:

"Non-profit corporations constitute a very desirable and flexible type of housing sponsor since they are usually more community-based and less rigidly structured than housing produced and managed by public agencies and more responsive to low-income needs than the private sector.

"At present, non-profit housing corporations are financially unable to serve low-income families, and in many cases have financial difficulty in making accommodation available to senior citizens.

"It is not reasonable to expect non-profit corporations to bear, without assistance, all the cost of social services and community facilities of the type that are increasingly found in private and public housing developments.

"The non-profit sector should be provided with sufficient government support to greatly expand the scale of its operations; but this is unlikely unless government is willing to recognize the need for and financially assist in the creation of special insti-

tutions or agencies to provide stimulation, technical and financial assistance, and management support services to the non-profit sector. In addition, it would be necessary for public institutions, particularly CMHC and the provincial housing corporations, to develop the internal capacity for a quick and sympathetic response to initiatives from the non-profit sector."

The bill containing these amendments died on the order paper at the dissolution of Parliament in September 1972. Changes to the National Housing Act were again tabled in the 29th Parliament. Bill C-133, tabled in January 1973, contained some of the improvements suggested. These included:

- (1) Abolition of the requirement for an equal provincial contribution as a prerequisite for a federal capital grant to non-profit and cooperative groups;
- (2) Substitution of average income levels for rigid income qualification for individual tenants so that a mixture of income groups could be encouraged;
- (3) Recognition of the legitimacy of community groups wishing to develop housing for themselves.

A number of recommendations by the CCSD Housing Committee were not acted upon, and it was with the intention of pressing for further change that a small delegation from the committee met with the federal minister responsible for housing in March 1973. Although the minister was receptive to the opinions presented by the delegation he offered no substantial changes to the legislation.

However, a number of additional items were included in the Act as finally passed by Parliament, as a result of intervention by opposition political parties during debate on the bill. Loans to continuing cooperatives were increased to 100 per cent of lending value, and the Central Mortgage and Housing Corporation was authorized to make rent subsidy payments for low-income residents of non-profit and cooperative projects under the rent-geared-to-income formula where provinces were willing to share this cost.

Despite the Housing Committee's reservations, the amendments enacted in June 1973 constitute a considerable advance in the interests of non-profit and cooperative housing in Canada. The extent to which this potential will be realized at some date in the near future depends of course on government commitment to these forms of housing tenure,

on the level of funding provided for projects developed under the new sections of the NHA and the way in which these amendments are administered.

The committee, fearing that the high level of expectations resulting from the new legislation might not be realized, has continued to monitor the effectiveness of programs designed to benefit non-profit and cooperative housing projects.

The CCSD convened a workshop in December 1973 of some of those involved in the development of non-profit and cooperative housing sometimes loosely termed the "third sector" - to discuss problems associated with further growth and to determine future strategy in light of the apparent direction of government policy and the goals of the third sector.

After considerable discussion, workshop participants, who represented most regions of the country, declared that the opportunities under the National Housing Act amendments were insufficient to overcome barriers to expansion of the third sector. A number of reasons for this were identified. Obstacles to growth were found in prevalent public attitudes which focus on individually owned private property as the goal around which housing should be developed. The third sector also has problems unique to a system that needs concurrent commitment and leadership in negotiating with other organizations external to it and is required to follow a participatory method of decision making.

The burden of these obstacles is increased by the fact that governments in Canada, over the past 25 years, have structured incentives to be most productive for private housing producers and provincial housing corporations.

Workshop participants agreed, however, that many obstacles could be overcome by changes in current government policy. One factor that limits development of the third sector, they concluded, is the various costs it has to carry. Participants saw a need to provide short-term development financing, as well as long-term financial support.

The workshop concluded by presenting a number of options upon which the Housing Committee could base further action. A recommendation was also made that the committee should undertake a preparatory study to elaborate government policy for further assistance to growth and development of the third sector. The committee subsequently endorsed the recommendation for developing a position paper on support for

the third sector.

The following report, prepared by Christopher Haire, a student at Carleton University, Ottawa, is the result of this recommendation. The report is a summary of the activity of groups engaged in third sector housing, and includes program suggestions that would aid in expansion of this type of housing activity.

Mr. Haire's analysis of the strengths and weaknesses of current programs, and the accompanying recommendations for short-term action, reflect, in the Housing Committee's opinion, the current status of these programs and the needs of people using the housing.

The recommendations for long-term strategy may not meet the approval of some readers. However, they do address what the Housing Committee considers to be the most critical issue facing non-profit and cooperative housing groups if third sector activity is to be increased and the high standards traditionally met by these groups are to be maintained, and that is, the need to free the sector from the capricious actions of some government administrators. The committee hopes that all who read this report bear this requirement in mind.

The Housing Committee, since it was formed some five years ago, has attempted to monitor housing policy affecting non-profit housing companies and cooperative societies. This report is but one contribution to this effort.

It is hoped that Canadians will consider, and pursue the recommendations of this report. To this end the committee will meet with government officials at all levels. In addition, and perhaps more important, it will attempt to help the third sector develop a unified thrust for changes in federal and provincial housing programs that will promote growth of the sector - especially as a source of housing for low and moderate income people

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## INTRODUCTION

The "third force" or "third sector" in housing is only beginning to emerge on the Canadian scene. Its elements are still disparate.

The private and public sectors are easy to identify. Housing can be said to belong to the private sector if it is freely bought and sold. There is some ambiguity in instances in which private structures are built on publicly owned land with long-term leases, or where public authorities have placed controls on speculation when the owner has received public assistance to acquire the house - as is the case with provincial- and federal-assisted home ownership programs. But these ambiguities are not serious enough to cause us to change this definition. The private sector in Canada controls about 95 per cent of all dwelling units.

The public sector has been clearly recognizable in Canada, as it has existed primarily to serve those unable to afford adequate housing. In addition, it has tended to take the form of identifiable housing projects.

The "third" sector is not as easily defined because it includes so many different components. Groups in this sector may either be long established or recent; their organization and operation may be hierarchical or democratic, paternalistic or participatory. They may also plan housing projects not just as an end in themselves but to support some other goal. They may attempt to fulfill either general or very specific housing needs.

Finally, there is one big chasm in the third sector, and that is between the non-profit companies and the cooperative societies. The oft-present differences in the motivation and organizational and management philosophies of these two are paralleled by differences in their institutional bases. Non-profit companies often have their base in voluntary associations, including neighborhood citizens' groups, while the cooperative movement has its base in the credit and trade unions. There is evidence however, that this chasm is narrowing. Groups are increasingly bridging the gap, especially neighborhood citizens' groups which often take on aspects of both.

Two kinds of organizations often included in the third sector have been excluded from the terms of reference of this report. Building co-



operatives, which are currently an especially popular organizational form in the Atlantic provinces, have been excluded because housing developed under their auspices can be traded freely on the open market once construction is completed and the mortgage paid off, depending on the terms agreed to by the cooperative. Municipal housing corporations have also been excluded.

### History of the Third Sector in Canada

In Canada, perhaps the best known and most established groups are those that develop housing for the elderly and other special groups. These are organized chiefly by various service clubs, churches, or charities. The neighborhood group is expanding rapidly as a component of the third sector. In addition to developing new housing, neighborhood-based citizens' groups are often interested in rehabilitating housing. Other groups have been sponsored by trade unions, social planning councils and so forth. Native people's groups are sometimes involved in developing housing both on and off reserves. Finally, there are groups that wish to develop housing in accordance with what are generally regarded as unconventional living arrangements. The innovative ideas of such groups include new architectural concepts, communal living experiments, and so forth.\*

Cooperative housing societies have been much slower to develop, in part because of the traditional reluctance of CMHC to provide mortgage funding.\*\* Canada's first continuing cooperative housing project, Willow Park in Winnipeg, received the first CMHC mortgage to go to a cooperative in the mid 1960s. Support was also given to three other cooperative ventures in 1969, as part of a federal government "innovative program." The largest of the three, Sarcee Meadows in Calgary, has 380 units. The significance of that program lay not so much in the expansion of the third sector, which not surprisingly got far less out of the program than conventional private developers, as in the opportunity it

\*See Novia Carter, *Somethin' of Promise: The Canadian Communes* (Ottawa: Canadian Council on Social Development, 197

\*\*Michael Dennis and Susan Fish, *Programs in Search of a Policy* (Toronto: Hakkert, 1972.)

provided for third sector groups to demonstrate their viability and credibility as housing developers.

The best that can be said of the level of activity in the third sector is that it is stable, but still generally low. There is a long way to go before it will have the strength of other housing sectors, especially the private one. To date there is little room for satisfaction about broadening the housing base for Canadians.

#### Recent Third Sector Activity

Since the enactment of amendments to the National Housing Act and the beginning of the new housing programs that were created by them in June 1973, there has been a considerable increase in interest and involvement by non-profit groups of various types in developing housing. From August to December 1973, 67 third sector projects had received some support from a CMHC program offering start-up grants.\* From January to August 1974 an additional 133 projects received assistance. Under the terms of Section 15.1, loans have been approved for 112 projects, of which 64 were new projects and the remainder extensions of existing ones. However, this section of the NHA still largely finances senior citizen housing projects. Thus, over 70 per cent of the funds loaned for 1974 were for senior citizen projects.

\*This program is described in Chapters I and II.



## CHAPTER I

### SURVEY OF THIRD SECTOR HOUSING GROUPS

The first step in finding out about the needs and requirements of third sector housing groups in Canada was conducting a questionnaire survey in the summer of 1974 of groups currently developing or operating housing projects.

Two fairly similar questionnaires were designed to learn from groups (1) their degree of commitment to developing housing, (2) what they needed to succeed in this objective, (3) the sources from which they required additional support, and (4) the way in which these needs should be met. In instances in which needs had not been met, a list was compiled of the outstanding problems impeding completion of the project or loan application. Suggestions were also solicited from groups on ways in which government programs could be made more amenable to attaining third sector housing objectives.

The two questionnaires were sent to organizations that had received loan approvals and to those receiving start-up funding. A few organizations received both questionnaires. The sample size in the loan approval category, which included projects completed during the past three years, was 112. All 109 groups with approved start-up funds in May 1974 were sent questionnaires.

In addition to obtaining information from the questionnaire survey, we interviewed people associated in one way or another with the delivery and promotion of non-profit and cooperative housing. These people included Central Mortgage and Housing Corporation officials at both head and field offices, professionals with experience in social housing projects, provincial government officials and, finally, people from non-government organizations who specialize in providing technical and promotional assistance to non-profit housing groups.

Time prevented our administering the questionnaires by direct interview. Nevertheless, the mail response from start-up groups was over 50 per cent; that from groups receiving loan approvals about 35 per cent. In addition, many of the people active in the groups agreed to interviews as well.

Groups that had their applications for either start-up or loan assistance rejected by Central Mortgage and Housing Corporation could not be contacted on a uniform basis: CMHC does not retain its files on these groups. However, during the field work for this study, we received information that enabled us to estimate the number of rejections of start-up fund applications. From the beginning of the program (August 1973) to August 1974 it appeared that about 30 persons or groups, or about 25 per cent of the total, had their requests for start-up money rejected at either the field or head offices.

Because we believed that those groups receiving start-up assistance were likely to be having the greatest problems in developing their housing projects - especially as a significant proportion of loan approvals were allocated to small-scale extensions of existing projects - our analysis focuses on the questionnaires returned by groups receiving start-up funds. The advantages of this procedure are twofold: first, it permits evaluation of a specific government housing program; second, it provides information about the part of the third sector that can be regarded as the most likely source from which general expansion of the whole sector will take place. Questionnaires were returned by groups wishing both to develop new housing and to rehabilitate existing housing.

It must be emphasized that the survey could not portray adequately all of the problems and requirements of third sector housing. As we have already noted there are many disparate elements. In addition, most of the loan approvals, as well as start-up funds, have gone to organizations undertaking housing developments for senior citizens and other special groups. Loan and start-up activity for new or rehabilitated family housing has remained low: 18 questionnaires were returned by groups planning to undertake housing developments for low and moderate income families. The following discussion therefore highlights, where possible, the findings for the latter groups.

### Survey Findings

1. Degree of Commitment. The questionnaires asked how long the organization had pursued the development of a housing project and the number of people involved. Most of the respondents had incorporated themselves or were in the process of doing so: two-thirds of the incorporated groups

dated from 1973 and 1974, though most of them had been under way for much longer. Over half the groups said they had begun in 1972 or earlier.

The largest number of people active in the groups were board members, contributing both part-time and full-time support. Less than half the groups had any staff employed on the projects and of those that did, staff were usually part-time. It was unusual for more than two people to be employed on each project. Some groups also retained consultants on either a full- or part-time arrangement, but this was the case for only a small minority.

Generally, staff devoted the most time to project development, followed by board members and then consultants. On average, staff time per week for each project was 90 hours, although this differed widely among the groups. Board members' time accounted for just under a third of total project time, averaging 19 hours a week. On average, groups committed 72 hours a week to their projects - though voluntary support increases, of course, when crises and important project development stages are reached.

The groups, both non-profit and cooperative, that were providing housing for families seemed to require a much greater level of commitment. Nearly all either had full-time staff - often paid for out of other government grant programs such as LEAP, LIP, OFY and Company of Young Canadians - or access to trained consultants, such as the United Housing Foundation in British Columbia. This does not mean that there was no input from volunteers as well, but probably that the perseverance needed to develop family housing requires full-time staff resources.

The questionnaire asked whether or not incorporation posed any difficulty. Just under half the respondents provided information on the costs of incorporation. These varied from \$10 to \$600, the average being about \$200. Additional costs were often encountered, however, as a result of requests from CMHC's legal division. Many of the requests were minor, but in complying with them, the costs often doubled or tripled.

2. Needs and Resources. One-third of the respondents were at the organization stage, one-third at the project planning stage and one-third at the property or land acquisition stage. Most problems were encountered in the planning and financing stage of the project. Difficulties with land and building acquisition formed the second largest problem area. Organization maintenance was the third.

A surprising number of groups had access to specialists of various types, although not usually architects. In all, 28 groups benefited this way and most of them rated services of this kind highly. Only eight groups stated how much they had paid for these services; the average was \$2,500. Many groups had access to voluntary services. Whether these voluntary services contributed to the speed with which a project proceeded towards the loan application stage cannot be determined. It is reasonable to deduce that such services were provided only on an informal and intermittent basis.

Of the 52 respondents, 21 supplied information about the architectural services they had received; most seemed to have been performed satisfactorily. However, architectural services tended to be very expensive, and were burdensome, especially when a group's only resources were start-up funds. The average figure for advance payments to architects up to the mortgage stage of a project was \$11,108, although this figure may have been inflated by a few excessively large amounts. Even so, architects' fees were between \$3,500 to \$7,000 for 9 out of the 21 groups. Many groups were at a stage in their development where they could not accurately estimate how much money was necessary for architects' services. Requests for information about the availability, quality and cost of other services brought little response.

In addition to CMHC start-up funds, which provided between \$500 and \$10,000 per project, a substantial number of groups had access to other sources of money. This is especially so for groups developing family housing projects. Financial support in either loans or grants from non-profit institutions was given to eight groups, while 14 received support from other government programs. The average request for money under the start-up funding program, according to the survey response, was \$7,030. By far the largest number of groups (10) applied for the full \$10,000. Some of the groups who applied for substantially less than the maximum permissible amount had done so on the assumption that, should they require more, subsequent applications to Central Mortgage and Housing Corporation could be made. The average grant given by CMHC, according to the survey response, was \$5,050. This corresponds to the average amount of \$4,430 received by all groups under the start-up program. No groups complained about the way CMHC distributed the grants once they had been allocated, although procedures varied from immediate distribution of the full amount to release of funds through installments.

3. Outstanding Problems. The major problems facing non-profit groups at the start-up stage have been described above. Respondents were almost equally divided on the question of whether these problems had been solved, one-half saying they had been satisfactorily resolved and the remainder that they had not. Some groups confronted with serious problems felt that with patience and endurance the problems would be overcome. But others, especially those who lacked resources to act freely, had become totally frustrated. The lack of sufficient funds created problems for many. Half the respondents felt they had enough money to complete a proposal suitable for loan approval from Central Mortgage and Housing Corporation, but one-third of this category had access to other funds through either nongovernment or government channels. Some groups were at too early a stage in the development of their projects to determine how much start-up money they needed for this purpose. One-third of the groups had already found they didn't have enough money to proceed to the stage of applying for a loan.

Two-thirds of the groups believed CMHC's decisions had been prompt or reasonable; one-third felt they had been too drawn-out. Only three respondents described their relationship with the corporation's staff as strained; 29 groups were able to say it was amicable.

However, this appearance of satisfaction with current non-profit housing programs should not be regarded as evidence that all is well. On the contrary, over two-thirds of the responding groups called for further government assistance to groups developing non-profit housing. The largest number demanded a general change in orientation by both provincial and federal governments. Typical remarks made by these respondents are: "The government should realistically compare our non-profit approach to that of private enterprise housing" or "The government should define its policy on cooperative housing." Large numbers of respondents were also in favor of expanding government programs to include provision of subsidized land, interim financing, and operating grants. Others wanted to see administration of programs improved by bringing decision-makers into closer contact with the groups involved, and through better coordination between government departments - that is, both horizontally between government departments and vertically between different levels of government.

4. Significance of Findings. By themselves, the questionnaire surveys can only be regarded as a guide to further investigation. They provide no clear-

cut answers to the problems that hinder expansion of the third sector. However, the results do assist in other lines of inquiry. They reveal that some groups view the government decision-making process as uncertain and drawn-out. Many have found it impossible to develop acceptable proposals in today's inflated housing market. Some indicated that CMHC's policies showed a lack of commitment to cooperative and non-profit housing. The survey revealed that at least half the groups in receipt of start-up funds were having difficulty persevering. Significantly, this included most of the groups developing projects for families.

## CHAPTER II

### THE FEDERAL GOVERNMENT AND THIRD SECTOR HOUSING

#### The National Housing Act

The June 1973 amendments to the National Housing Act established 10 revised or new housing programs; only a few of these affect third sector groups.

Land assembly provisions potentially benefit the third sector, and a substantial number of respondents to the survey questionnaire indicated that governments could intervene effectively in facilitating and assisting land acquisition, as well as in writing off at least part of the cost of land in high-cost areas. There are two sections of the National Housing Act under which land assembly may be assisted by the federal government. Section 40 authorizes CMHC to support 75 per cent of the cost of acquiring land through federal-provincial partnership. It is important to emphasize at this point that the partnership is not required to recover that part of funds used for developing housing. In other words, assembled parcels can be disposed of at subsidized rates. In addition, our reading of the NHA suggests that a province is free to designate an agency to undertake its responsibilities as partner. Several provinces have designated municipalities to take on this role in the past, but we see nothing that would prevent a province from designating another agency, including a non-profit company or cooperative society. An alternative under Section 42 authorizes CMHC to advance loans of not more than 90 per cent of the cost of acquisition, clearing, planning and servicing land purchased by municipalities, provinces or publicly owned housing agencies. Nothing in this section would authorize a province to designate a non-profit or cooperative organization as its agent. However, this omission may actually impose no limitation at all since the terms currently in effect for repayment prohibit a reduction of land costs except where there may be an agreement under Section 44 of the Act. The same omission is found in the New Communities Program. Only one of the three NHA sections enabling CMHC to assist land assembly is of potential immediate benefit to third sector organizations, and this is currently only a potential benefit.

Four new programs relate more directly to third sector housing activity.

(1) Under the Neighborhood Improvement Program (NIP) municipalities that qualify for assistance may delegate some responsibility to non-profit groups to carry out housing rehabilitation in an approved NIP area.

(2) The Residential Rehabilitation Assistance Program (RRAP) authorizes rehabilitation loans and subsidies to owner occupants, private landlords and non-profit organizations. It is a program that potentially provides ancillary assistance to many non-profit groups as they do not have to be located in a NIP area to receive assistance, although the wording of the Act allows CMHC to refuse applications where a municipality does not possess a program of housing standards enforcement.

(3) Most government assistance to third sector housing results from Section 15.1 of the National Housing Act. Under this section, support to groups undertaking cooperative and non-profit projects consists of: (a) financial assistance in preparing loan applications to CMHC (Section 37.1); (b) loans of up to 100 per cent of the lending value of the project; and (c) a grant of up to 10 per cent of the capital costs of the project. Co-operatives must be genuine groups with members actively involved. Regulations prohibit assistance to "mother societies."

(4) The fourth program to potentially benefit the third sector is in Section 34.18 of the NHA, the Assisted Home Ownership Program. Members of building cooperatives are eligible for the same assistance as individuals on their own behalf, including federal loans for as low as 8 per cent and additional forgiveness up to \$600 a year in interest charges on loans, depending on income.

Enactment of the amendments to the National Housing Act has buoyed expectations in the third sector. Many of the changes had been sought for years. Whether or not the federal government intended to create a large and viable third sector in housing is discussed later in this report, but one objective of the changes appears to have been to maintain the 1964-70 level of third sector housing activity. Loans to non-profit companies totalled over \$90 million in 1969. In 1973, the year the amendments were enacted, they reached only \$34 million. It was evident that further incentives were required over and above those provided private entrepreneurs if there was to be a third sector at all.



## Administration of the Programs

Legislation in the National Housing Act, unlike that of many other federal government programs, is enabling legislation. It is general, and open to a wide range of interpretations. Therefore some analysis of the actual administration of the relevant sections of the Act is required.

### 1. The Start-Up Program

The start-up program legislation is brief and concise. Section 37.1 stipulates that :

(1) Where a person advises the Corporation that he wishes to undertake a project for individuals or families of low income for which project a contribution or loan may be made under this Act and satisfies the Corporation that he requires financial assistance for any purpose related to the development of proposals for the project or the initiation thereof, the Corporation may make a contribution for that purpose subject to such terms and conditions as it considers proper.

(2) The aggregate amount of contribution made under subsection (1) with respect to anyone project shall not exceed \$10,000 except where otherwise authorized by regulation of the Governor-in-Council. 1973, c. 18, s. 14.

It is therefore recognized that developing a project to a state where it satisfies CMHC's requirements for mortgage applications may require government contributions. The legislation requires only that groups or individuals show financial need. It is the interpretation of this legislation which is of concern to the third sector, especially in view of the expectations generated by the wording of the legislation. There are several points to be made here.

First, the legislation is precise when it states that funds are to be provided on a project rather than a group basis. But the reference to financial needs is ambiguous. The ambiguity has allowed CMHC to interpret the legislation as meaning the financial needs of groups rather than of projects. This in itself would not be disastrous except that CMHC's unduly restrictive interpretation of this section has led to several groups being denied start-up assistance.

Second, start-up assistance may consist of a loan or a grant, and CMHC is given discretionary power to decide on the form it may take. Recently there have been indications that CMHC is becoming less generous in making grants, with the result that the loan proportion of start-up contributions is increasing.

Following is an outline of the development of the program to its present state. Table I shows the distribution of start-up funds to August 1, 1974.

TABLE I

DISTRIBUTION OF START-UP FUNDS\*

	Funds Expended from 1 Sept. to 31 Dec. 1973		Funds Expended from 1 Jan. to 1 Aug., 1974	
CMHC Region				
British Columbia	\$ 87,811	28	\$201,965	40
Prairies	75,650	18	49,345	10
Ontario	132,198	42	168,455	33
Quebec	nil	nil	46,050	9
Atlantic Provinces	38,000	12	40,787	8
Total	\$315,659	100	\$506,602	100

Average Expenditures per Project:

1 September to 31 December, 1973	\$4,711
1 January to 31 April, 1974	\$4,556
1 May to 31 July, 1974	\$3,199

\*The figures are tentative. They are not official CMHC statistics.

On August 21, 1973, CMHC announced the beginning of this program. In the following week, a general memorandum was distributed to all the local offices of the corporation explaining the operating procedures. The purposes of the start-up fund were:

(a) to allow a group to test out the feasibility of its concept before proceeding to additional work;

(b) to assist a group to organize and develop proposals for a housing project to the point where a loan commitment can be given;

(c) to develop a group strong enough to own and manage a project.

Note that objective (a) provides for start-up funds to be used as

seed money, which contains the tacit recognition that substantial numbers of projects may not proceed any further, and that objective (c) indicates that the funds may be used for purposes of the group after a loan application has been made and approved. The memorandum goes on to authorize branch managers to advance up to \$500 to groups that have been positively evaluated, and to submit to head office requests for no more than an aggregate grant of \$10,000 to each group. There is no mention of any contributions taking the form of a loan. The general memorandum explained it was "expected that after six to 12 months, enough experience will be gained on a national basis to suggest firmer criteria for use by local managers and the subsequent decentralization of authority and funding." The overall tone of this general memorandum is one of tentativeness, which is fully understandable given the newness of the program.

CMHC was uneasy, however, that the program might be abused. This uneasiness prompted release of a further general memorandum (B-802) on procedures for allocating start-up grants. The firmer criteria alluded to in the August 1973 instructions had finally materialized. These instructions spelled out in greater detail criteria for the level of financial support under the start-up program. Groups with a large contingent of voluntary labor would not necessarily receive start-up funding. It was specified that: "Start-up funds are not intended to replace labor and services which would otherwise be provided on a volunteer basis."

By themselves these refinements in the guidelines may have substantial merit. Resources which are scarce should be allocated to those most in need. What is regrettable is that the rules keep changing, and that while they are changing groups are left in a state of uncertainty.

The new guidelines contain a number of substantial revisions. The need to support groups beyond the proposal stage is no longer recognized. The criteria for selection have been considerably restricted. Start-up funding has been transformed from a program designed to promote formation of third sector groups to a program which offers ancillary assistance to selected groups. The groups must have already demonstrated their ability to accomplish the proposed task, and they must make significant voluntary contributions during the early phase of their development. Payment of salaries for project coordinators is no longer guaranteed, and the failure to provide funding for this activity could handicap a group's ability to function effectively and to use outside services and CMHC's staff efficiently.

With the initiation of the Community Resource Organization Program (CROP) CMHC expects third sector groups to make use of the coordinative services of organizations receiving grants under that program. CMHC still, however, is prepared to make a gesture of support to third sector groups in embryonic stages of development. This gesture permits branch managers to increase allocations for initial feasibility studies from the previous \$500 to a maximum of \$1,500.

#### The Start-up Program by Region

Our sources of information are interviews conducted with CMHC field staff, as well as their written responses to evaluative inquiries placed by the CMHC head office in the spring of 1974 as part of the evaluation that preceded the issuance of new program guidelines.

British Columbia. Responses from the CMHC regional office in British Columbia and the branch office in Vancouver seem to reflect an appreciation of the problems besetting non-profit and cooperative housing groups. Nevertheless there are exceptions. Up to May 1974, 13 applications were rejected at the local level in British Columbia. The assumptions underlying these rejections give rise for some concern.

Many groups were rejected simply because they possessed previous housing development experience. Rejection for such a reason may be ignoring the fact that the experience and means a group used in the past to get a project off the ground may now have evaporated, or the fact that groups developing housing for low-income households often have few or no financial resources.

The applications of several groups active in the rehabilitation or conversion of housing have been rejected. These rejections appear to be based on the assumption the "buying existing housing units in urban areas does little to aid the housing crisis," as one CMHC official explained it. It is apparent that groups requesting start-up assistance must have objectives that fit CMHC's priorities.

However, local offices in British Columbia were attentive to the needs of groups they approved for start-up funds. This attention was particularly valuable, for instance, when the CMHC management board ordered several cut-backs on architectural services in proposed start-up budget applications, even though the amounts had been approved by the regional office in full

accordance with current operating instructions. The management board reduced the amounts of the grants because they said these funds should be included in the loan. However, appeals from the local office caused the board to accept the fact that groups need enough money in hand to retain the services of professionals.

The Prairies. Evidence from the Prairie provinces is fragmentary. In addition, each of the three provinces possesses its own attitude toward the third sector, and CMHC field offices of course reflect these differences.

CMHC staff were generally favorably disposed toward the objectives of the program. They emphasized that without a comprehensive program beyond the start-up stage, groups could hardly be expected to produce and maintain housing of a high quality. Although they were receptive to the concept of non-profit projects, the staff tended to put a great deal of emphasis on the economic viability of projects. Social benefits received rather limited consideration. There also appeared to be a reluctance by CMHC in this region to risk backing up groups inexperienced in housing. Apprehension was shown that start-up money might be allocated to some groups that could break up in the future. This suggests either that the staff doubted its judgment in handling the program or that there is major resistance to the program. Doubts were also evident about head office's continued commitment to non-profit housing. This placed field staff in the awkward position of encouraging groups on the one hand to take advantage of existing programs while knowing, on the other hand, that groups' aspirations would be frustrated through delays in approval of start-up funds and again at the loan approval stage.

Ontario. CMHC staff of the Ontario region reflect head office attitudes. This region contains the highest level of activity in the country, and some credit must be given to CMHC for fostering its growth. However, while some groups have been silently satisfied others have protested vociferously. Generally, it seems that applications are processed through a tight review system, and groups must demonstrate a high degree of expertise before funding is approved. Nevertheless, because of a fairly long history of third sector activity in the province, especially in the metro Toronto area, this has not posed much of a problem. Thirteen neighborhood groups have received 25 per cent of the total start-up allocations.

The region's response to the problem of supporting professional services out of start-up funds was quite reasonable and recognized the need for employment of professional services. At the same time it was also made clear that professionals who were active members of a non-profit group should not have their services reimbursed by money from the start-up grant. Recognition was given to the essential needs of coordination and staffing if groups were to be able to carry on with their projects.

Although it appears that the regional office sympathizes with the needs of third sector groups, there are indications that local office branch managers do not, at least not to the same extent. Some groups have had difficulty in convincing local office personnel of their needs, especially their staff requirements. The lack of enthusiasm of branch office personnel to lobby, as they have done in British Columbia, for the needs of these groups is obvious. The provincial government provides additional support to third sector housing groups but coordination with federal initiatives, and vice versa, has been totally lacking up until now.

Quebec. This region has the lowest level of activity of all regions for allocations under the start-up program. Federal-provincial conflict over which body - CMHC or the Quebec provincial housing corporation (Société d'habitation du Québec) - should administer the start-up and other non-profit housing programs is partly responsible. The jurisdictional dispute was only resolved in July 1974, when CMHC was given responsibility for program administration. Since then, additional staff has been hired by CMHC to promote these programs. It is still too early to assess how effective CMHC's efforts will be, but there are indications that reinstitution of the start-up program has already had an effect. There were no start-up grants in 1973. But by May 1974, \$26,000 was distributed and by early August a further \$20,000 had been committed.

Atlantic Provinces. Social development in housing is seriously lagging in this region. Generally, a cautious attitude has been taken toward supporting groups with start-up money. Only those with either good experience or with technical and professional background in their membership have received funds. In all the regional offices except New Brunswick there are no fixed rules for deciding on the allocation of funding. But in the New Brunswick office the procedure has been adopted of allocating \$100 to \$150 per dwelling unit. This would be very hard to justify under the general CMHC memorandum on the level of start-up funding.



In summary, while some social development officers in regional CMHC offices have promoted the start-up program according to our survey, others, as well as branch managers, have appeared to be dragging their feet. Those who have been anxious to promote the program have found themselves beset by additional problems in the form of disputes with head office or difficulties arising out of the lack of program follow-up after the start-up stage was passed.

Since May 1974, and in response to General Memorandum B-812, measures have been taken to limit the items eligible for funding under the start-up program. Coincidentally, since May 1974, there has been a substantial cut-back in the program to avoid budget overruns.

If the expansion of the start-up program had not been checked, total allocations by the end of the year would have been well over the \$800,000 budgeted for 1974. By May 1974, \$315,000 had already been allocated to 60 projects. Assuming the same rate of applications would continue to be funded for the rest of the year, although this may be underestimating the number because of the effects of increased promotion of the program, the total budget outlay would be about \$1 million.

As has been shown, groups active in developing housing through the non-profit and cooperative provisions of the NHA consist largely of part-time amateurs. Exceptions are encountered only where experienced non-profit foundations, such as the United Housing Foundation in Vancouver or the Labor Council Foundation in Toronto, have acted as resources for groups. Groups generally lack the resources to prepare a loan application and have only recently received help. This assistance by itself is insufficient. Groups have still had to go the round of charitable organizations and financial institutions to bring their resources to the required level. Banking institutions in the private sector and credit unions in the non-profit sector have at times provided additional help.

However, these organizations cannot consistently be relied upon. Private sector lenders are biased toward the free enterprise development-based sector of the housing industry. The non-profit sector has generally been cautious, wishing also to maximize its returns and to avoid any losses. Churches and trade unions have on occasion advanced funds for non-profit housing projects, but they are neither financially equipped nor sufficiently disposed to meet the enormous financial needs of the third sector. Ignorance of the needs of these groups is not the reason for CMHC's limited response, as the

following extracts from a report by branch staff to head office indicate:

Past experience points out that preliminary drawings can be a very expensive venture for a cooperative association, with figures often running as high as \$20,000 or more. The reason for this high cost is quite simple - an ever increasing sophistication in preliminary sketches is demanded by all three levels of government before green light decisions are made. Both CMHC and the provincial government require unit size specifications and an accurate costing outline, not to mention municipal approval for each proposal. For municipal council approval these non-profit associations must first satisfy municipal technical staff and in many cases a group called The Urban Design Panel, all of which require more than thumbnail sketches,....

It can be quickly noted that if architects were solely to work with cooperatives or non-profit societies on the basis of a 6% fee (1.2% to 1.5% for preliminary drawings) or on a per diem hourly rate, then the costs in many cases would be far beyond the reach of groups' financial capabilities and certainly far beyond present start-up provisions.

One can conclude that even if an upset\* fee were charged by architects for these services, the amount would still reach at least \$7,000, which does not leave much for other essential services such as coordination. The importance of the latter services is stressed in the following internal memorandum.

...the discussions out of which the Start-up Program evolved were greatly concerned with providing groups with a full time coordinator. In fact it was considered one of the greatest items of need. It was felt that it was a full time job for one person to do such things as locate houses, coordinate volunteers, meet with numerous committees, write proposals and other tasks. The establishment of a non-profit corporation is complex simply due to the many activities that must be accomplished. It is further complicated by the fact that a non-profit coordinator is developing a kind of expertise not available anywhere else. Whereas the entrepreneur is responsible only to himself and can make decisions according to his own needs, the non-profit coordinator must take into account the needs and concerns of the community which the entrepreneur can ignore. The time required to perform appropriately the duties of a non-profit coordinator greatly exceeds the amount of time that can be expected of any volunteer.

It is clear that architectural services and coordination alone are likely to absorb the whole of the maximum amount of a start-up grant.

In conclusion, our greatest concerns about the adequacy of the start-up fund program are with the interpretation which CMHC has placed on the rather general provisions of the NHA. The Canadian Council on Social Development Housing Committee said in its reaction to the amendments when they were first introduced that the start-up program was by itself inadequate as a strategy to build up the resources and expertise of third sector

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\*A term used by developers indicating a 'uniform fee'.



housing sponsors. CMHC's subsequent initiation of the Community Resource Organization Program, which is discussed later in this report, lent credibility to this assertion. Nevertheless, the start-up program has allowed many groups to initiate and develop non-profit housing projects, and it has been the main tool for facilitating their contribution to social housing thus far. It is for this reason that clear and consistent policy is important. And as we have pointed out, CMHC's policy has undergone considerable evolution.

## 2. Mortgage Loans

Section 15.1 of the National Housing Act authorizes CMHC to make loans to non-profit companies and cooperative societies. Although the interest rate to be charged is not specified, CMHC has maintained it at about 8 per cent since the NHA was amended in 1973. Currently, this means a saving of about 1.5 per cent over CMHC's own borrowing rate from the federal treasury and 3 to 3½ per cent over the market rate. Several reasons possibly lie behind the decision to maintain such a low rate of interest when it is higher for practically all other sections of the Act. An obvious one is to allow projects developed under this section to serve as low an income group as possible. An additional reason is likely a policy of maintaining similar interest rates for the non-profit rental program and the assisted home ownership program.

An additional provision of Section 15.1 authorizes CMHC to make contributions of up to 10 per cent of the cost of such projects, usually taking the form of loan forgiveness. In its statement on Bill C-133 (29th Parliament) which embodied the NHA amendments, the CCSD's Housing Committee said it doubted that the proposed 10 per cent capital grant, even if matched by an equivalent provincial and municipal contribution, would enable non-profit housing corporations to offer housing to low-income families. It was for this reason the committee recommended that the rent-geared-to-income scheme under Section 44 be extended to non-profit and cooperative housing sectors. An amendment to this effect (Section 44(1)(b)) was finally enacted by Parliament in the face of opposition from the minority Liberal government. However, it is uncertain if CMHC will make this additional assistance available. No budget for this item was requested by the corporation in its 1974-75 main estimates. Whether funds will be requested and, if so,

Loans to Non-Profit Companies and Cooperative Societies

by the Central Mortgage and Housing Corporation

January 1, 1974 to November 13, 1974

	Senior Citizens		Self-contained		Special Groups		Family Housing		Total	Budget Allocation Revised November, 1974
	New	Existing	New	Existing	New	Existing	New	Existing		
Newfoundland	\$1,100,000								\$1,100,000	1,700,000
Prince Edward Island										
Nova Scotia	3,557,048								3,557,048	4,100,000
New Brunswick	891,307	364,550	5,918,374			50,350			7,636,461	9,600,000
Québec			3,720,000	92,830					3,856,830	11,100,000
Ontario	13,753,069	494,153	22,100,385		301,417	1,000,598	63,000	23,455,997*	61,168,619	69,200,000
Manitoba		544,352				68,235	3,179,683		3,792,270	4,300,000
Saskatchewan	1,987,397				113,378	75,717		760,000	3,696,492	7,100,000
Alberta					64,650	178,700	1,487,600		1,730,950	7,100,000
British Columbia	5,564,759		13,272,537			1,620,841	188,804	3,506,700	24,153,641	32,700,000
Canada	26,853,580	1,403,055	50,144,736	92,830	479,445	2,994,441	4,919,087	28,228,927*	115,116,101	152,200,000

\* \$ of this amount, \$17,137,500 was allocated to the Corporation of the City of Toronto

how much is being considered for 1975-76, is unknown as of January 1975. A rent-geared-to-income arrangement is in effect in senior citizens' housing owned by the Ottawa and Metropolitan Toronto Housing Companies (municipal non-profit companies that built projects under the non-profit Section of the NHA before the 1973 amendments) and in 10 units in one family cooperative project (De Cosmos Village in Vancouver) on a trial basis. If non-profit and cooperative housing projects are to accommodate a significant number of low-income families, and many consider it essential that they do so, then it is evident that this Section of the National Housing Act will have to be opened on a nationwide basis. There are already numerous demands to do so. Provincial governments in British Columbia, Manitoba and Ontario have requested implementation of these provisions in their provinces for at least a portion of the housing built under Section 15.1.

Provision of 100 per cent low-interest-bearing loans, capital contributions upwards to 10 per cent and the possibility of extending the rent-geared-to-income formula used for public housing to at least a portion of the dwelling units contained in non-profit and cooperative housing projects is designed to make the development of such projects economically viable, as well as to make it possible for them to house those of low and moderate income. Such is the design and intent of the National Housing Act.

However, our analysis of regulations and field procedures and of the survey questionnaire results, as well as interviews with CMHC staff, reveal that development of a housing project subjects its sponsors to constant frustration. Years of training and experience and amicable relationships have naturally made CMHC staff, as well as the staff of provincial housing agencies, suspicious of the small, amateur effort which characterizes many non-profit and cooperative groups - especially those whose initiatives have been sparked by the start-up fund program. But as we attempt to show in the following, it is not so much the inclination of the staff administering government housing programs, nor even policy decisions of CMHC's head office officials that are to blame for the innumerable difficulties likely to be encountered by a third sector group. More to blame is the market to which third sector housing developments are expected to conform. CMHC'S assessment of this market is also at least an irritant.

The General Memorandum B-767 of August 1973 containing instructions on program operation stresses the need for both CMHC and the loan applicant to reach a common agreement on estimated project costs. It states explicitly

that the cost of land should be considered at its real market value, even though it may have been acquired for a nominal sum by a non-profit group. (This is important for calculating the size of the federal contribution toward capital costs of the project.) Excluding CMHC's rather discriminatory attitude toward loan applications from communal groups (they define them as "sub-culture phenomena" whose members are "almost always low income by choice"), the General Memorandum B-767 (for cooperatives) and B-768 (for non-profit groups) are fairly reasonable.

It is when one reviews CMHC's practices and expectations in the actual making of loans that one begins to question this reasonableness. The freedom of groups to develop innovative solutions to housing projects is certainly severely limited.

One issue concerns the reasonableness of cost limitations which CMHC imposes on loan approvals. The fixed maximum unit cost for high-cost centre - Toronto and Vancouver being prominent among these - are now \$40,000 per town house and \$20,000 per apartment. However, until these figures were revised, it was extremely hard to get unit costs per project within the CMHC's maximum permitted amount. The revision of capital cost limitation came about through the political project of groups during the election campaign of the summer of 1974. (In other parts of the country the maximum unit cost is less and has generally not posed such a problem to groups, although it has limited the choice of design and planning schemes adopted.)

The most serious and difficult-to-understand requirement that groups have to meet before loans will be approved is the expected rental level of a non-profit project. Projects are expected to reflect current rents (at time of project completion), less the rental value of any concessions resulting from the capital grant and the low interest rate loan. To make such a requirement CMHC must either be trying to fox the third sector into stagnation, or else it regards it as a miracle sector capable of beating the private development industry at its own game. Market rent levels are established as a result of the complex interaction of supply, demand, the historic construction costs of existing projects and of new projects.

Virtually every reader of this report knows that there has been a serious decline in housing starts. The largest decline has been in the rental sector. There are several reasons for this, but analysts seem to agree that one of them is that rents have not kept pace with new develop-

ment costs. As rent increases begin to accelerate, and this is already happening, rental sector starts on the private market will increase. In the meantime, however, no one, including private developers, can erect new structures that can be let at present rent levels.

Even if present market conditions were amenable to new rental construction it would be unrealistic to expect third sector housing groups to conform to such a rental market. Just because a project is sponsored by a non-profit organization does not mean it will cost less to build. The construction contractor will still be making a profit. His profits are likely to be higher than in the case of a builder-developer, especially if he is under a general management contract. The builder-developer expects to take a large portion of his profits after the rental units are occupied. There are several other specific reasons why it would be difficult under any circumstances for non-profit groups to meet the rentals of private developers.

(1) As our survey revealed, non-profit groups have difficulty obtaining suitable sites and when they do so on the open market the price is often somewhat high.

(2) Non-profit groups do not usually have existing rental buildings, the revenues from which might be used to offset initial losses on new structures, as some private developers have.

(3) Third sector groups are not able to take advantage of provisions in the Income Tax Act that allow private developers to turn paper losses into cash surpluses.

(4) Finally, because the primary variable likely to cause non-profit and cooperative projects to incur rental increases are increases in operating costs, there is an incentive to invest in capital intensive facilities and equipment whose maintenance costs will be low. The incentive for the private developer is often to do the reverse.

CMHC's expectation that third sector housing developments will compete in today's private rental market and on even terms with private developers will clearly frustrate the growth of a third force in housing. The advantages of third sector housing lie in the social area and in the fact that rent increases are limited to actual cost changes and not to what the market will bear, as is the case with private rental housing. Its advantages in the social area usually occur in the day-to-day management of the project and in the fact that many projects will gladly accept subsidized tenants. As can be seen in a letter from the president of CMHC to the chairman of the



Non-profit Housing Federation of Metropolitan Toronto, the federal government seems not yet to have recognized this. (See appendix A, page 46.)

Before leaving this subject it should be stressed that there are at least two reasons why it is an issue. One is based in certain practices of CMHC's appraisal division, which in many cases may be questioned. For instance, some appraisers compare estimated project costs to present market rentals when it would be better to use market rentals anticipated when a project is completed and ready for occupancy. Often, comparable projects are difficult to locate. Although several projects have encountered delays as a result of appraisal procedures, there is evidence that deficiencies are being rectified.

The second reason however is more serious: it is that the concept itself is faulty. Certainly it is necessary for project rents or occupancy charges to be less than for similar projects on the private rental market. It is also desirable for them to be as low as possible. But, as we have pointed out, it is not necessarily feasible for them to reflect every dollar of advantage received because of government intervention.

The cost criteria are not the only economic barrier imposed by CMHC on non-profit and cooperative groups. CMHC regulations now require that residents must be at an income level such that on entry into the project the monthly payments (rental in the case of non-profits; occupancy charge in the case of cooperatives) must constitute 30 per cent of income. This seems unreasonable in light of the fact that the federal government in 1970 imposed 25 per cent as a norm for public housing tenants, and, further, that 22 per cent is considered the maximum for the assisted home ownership program. The only relief which CMHC has granted from this requirement is to allow companies or societies to mix incomes as long as the average meets the requirement.

It is obvious that faced with the problems of meeting such requirements groups get angry and frustrated with CMHC. It is also an indication of the little faith CMHC has in the potential of development by third sector groups that it must put them through such an array of tests before loans are approved.

#### Related Problems

Getting a loan approved is not necessarily the end of the problems that have to be surmounted before a non-profit group can complete a housing project.

During our survey, situations were encountered in which contractors were required to be hired on either a general contract or under a management contract. General contracts cost more, as the contractor has to carry the financial risks associated with construction, and in today's inflationary economy this may involve an additional 20 per cent, excluding allocations for contingencies. A management contract does not involve a fixed cost for construction and sub-trades can be hired directly, but the risks of increased costs are borne by the sponsor of the project. To ensure that the quality of construction is maintained under either form of contract with the builder, constant supervision is required if very expensive alterations are to be avoided later on. This supervision has significant costs attached to it. Requirements such as these were certainly not universal, as reported by the groups in our survey, but they were common enough to merit attention to them in this report.

The timing of advances from CMHC also imposes a serious burden on third sector groups at the construction stage. This timing does not always meet the requirements of the contractor. In addition, CMHC withholds 15 per cent at the completion of a project to assure that all bills are paid. The problem of interim financing is serious. A committee established to advise the Ontario Minister of Housing has declared in its report that "the biggest problem facing the third sector is the lack of interim financing and working capital" (land issues were discussed by another committee.) Yet interim financing is in a sense an artificial problem. If CMHC were to be more responsive to the cash flow needs and the inflationary effects of the economy on the escalation of construction costs, non-profit groups would find it much easier to complete their projects. However this is not the case at present.

These are some of the problems uncovered during our survey, as they obtained at the time our survey was carried out. On the whole, however, we found the program guidelines to be administered in the spirit in which they were drawn up. Only a few breaches were encountered. However, these are worth commenting on as they may help point up how CMHC could clarify what are ambiguities to many field staff. For instance, at least one CMHC branch office was requiring a cooperative project to have 51 per cent of its units subscribed before any loan advances at all would be made, in spite of the fact that the operating instructions are explicit in saying that, "The 51 per cent requirement is a minimum that must be achieved at final

## CHAPTER IV

### SUMMARY AND RECOMMENDATIONS

Various organizations established to provide housing for low and moderate income families and individuals have encouraged the enactment of amendments to the National Housing Act that would provide them easier access to mortgages provided directly by the Central Mortgage and Housing Corporation. Although these organizations are far from homogeneous, they can for purpose of definition be labeled the "third sector," or "third force," in housing. They are distinct in that none convey any financial return to their members.\*

Amendments to the National Housing Act were enacted in 1973 with the professed intent of achieving these objectives. The amendments authorized loans equal to 100 per cent of the lending value of projects sponsored by these groups; contributions to such projects of up to 10 per cent of their capital costs; start-up funds for any individual wishing to develop a housing project for low and moderate income families and individuals and who does not have the resources to develop the project himself; loans and grants for housing rehabilitation to groups constituted other than for profit and to groups constituted as building cooperatives.

There was concern at the time, and the Canadian Council on Social Development's Housing Committee was among those who voiced this concern, that the amendments did not constitute an overall program package that could achieve the objectives stated by the government. The subsequent allocation of \$800,000 for the Community Resource Organization program by CMHC, as well as the many provincial program initiatives that have been adopted, seem to sustain this view. However, having got off to a slow start the creation within CMHC of a separate division responsible for cooperative and non-profit housing and the hiring of field officers for it has provided the basis for a viable program of assistance.

Still of concern is the low level of activity in the third sector, especially the small amount of family housing. For instance, CMHC originally

\*Many cooperative societies do provide their members with a return on their equity equivalent to the rate of increase in the consumer price index. ~



budgeted over \$169 million for mortgages for non-profit companies and cooperative societies in its 1974 capital budget. In October 1974, when it became certain that much of the budget would remain unexpended, \$17 million was transferred to the rental entrepreneur program. Of the remaining \$152 million, only \$115 million, or 75 per cent, had been committed as of November 15, although CMHC officials said they expected to commit the additional \$37 million in the six weeks remaining in the year. More striking is the fact that only 29 per cent of this total (\$33,148,014) was for family housing. If the \$17 million allocated to the City of Toronto Housing Corporation were excluded this figure would be halved. Most of the remaining funds have been committed to senior citizen housing. There is certainly a need for housing for the elderly, but we believe there must be serious problems with the program if it is not economically feasible to develop family housing projects (including rehabilitated housing) under it. The low level of program take-up and our monitoring of developments seemed to us to justify a detailed analysis of the program and a survey of groups using it.

Our survey revealed that start-up funds have been useful in facilitating loan applications to CMHC. However, it also revealed that the funds were often not adequate to accomplish the task. This was especially so for family housing, where nearly two-thirds of the groups answering our questionnaire said they relied on other government programs for funds to develop their proposals.

CMHC's heretofore uncertain policy on the start-up fund program is of concern. However, the creation of a separate division for third sector housing, the decentralization of approvals to the field, and the summer 1974 reformulation of the guidelines should result in a smoother running program. Some difficulty will still be encountered by inexperienced groups unable to convince CMHC field officials of their ability to carry through. This problem will be more serious where officials are unfamiliar with third sector housing and where the services of independently-funded community resource organizations are not available. Budget constraints which impinge on CMHC's willingness to fund staff coordination expenses or activities focused on the management aspects of project development are likely to be a constant source of irritation as well.

Our analysis of the legislation, regulations enacted by CMHC and economic conditions have revealed that CMHC's unjustified expectations in

today's housing market, combined with a lack of appreciation of the benefits of stable rents and occupancy charges which third sector groups are able to offer, are largely responsible for the difficulty in developing project proposals acceptable to CMHC without sacrificing quality. Improvement in appraisal procedures and acceptance of negotiated contract bids will improve the situation, but they will not likely solve completely the problem of unrealistic expectations. Our analysis also revealed a number of specific problems related to the timing of construction advances, the proportion of income which residents of third sector projects are expected to spend on rent and the availability and price of land.

#### Short-Term Recommendations

It is generally acknowledged that considerable improvement is required in the program package offered the third sector. The federal government's initiation of the Community Resource Organization, numerous changes in CMHC operating instructions, and enactment of complementary programs by some provinces are evidence that governments are aware that changes are needed. The recommendations that follow are intended to call attention to these changes and to encourage their early adoption. The following can and should be done in the short term.

(1) Criteria for loan approvals should focus on social benefits as well as economic factors. The program guidelines, if adequately administered, assure governments that any economic benefits obtained are passed on to the residents of projects.

(2) The period required by CMHC for approval of loans should be considerably shortened.

(3) Guidelines for programs should be administered consistently throughout the country. This is especially important with the imminent decentralization of CMHC.

(4) The federal government should honor the 1974 general election pledge of the Honorable Ron Basford, then Minister of State for Urban Affairs, to provide leased land to continuing housing cooperatives and non-profit groups. Such assistance, however, must do more than simply replace the present capital grant, especially in areas of high land cost. Third sector groups are providing a service which contributes toward the objectives of housing Canadians at a reasonable cost.

(5) The schedule for providing construction advances to cooperative societies and non-profit groups should be revised in such a way that expensive interim financing does not have to be sought from other sources. The "held-back" at the conclusion of construction should be eliminated.

(6) The federal government should enter into agreements with the provinces under Section 44 (1)(b) of the NHA to share losses where third sector groups serve families and individuals of low income. For their part, all provinces should determine the place of the services potentially provided by

third sector groups in their plans for providing subsidized housing and seek federal government concurrence with these plans. British Columbia, Manitoba and Ontario have sought such agreements.

(7) The funding of community resource organizations should provide for a wide range of technical, promotion and research services in addition to those which the present guidelines and budget restrictions permit. Funding of such organizations should be stable over at least a three-to four-year period to avoid force-feeding of projects to the loan approval stage.

(8) The services available from community resource organizations need to be available over a wider geographical area than now seems to be contemplated.

(9) Third sector groups should be given a definitive role in the New Communities Program.

These measures, if adopted, would go some way toward meeting the needs of most third sector housing groups and would give the third sector a strong voice. Once an integrated and harmonious package of support for the third sector has been put into effect, governments must learn that this aspect of social housing cannot be turned on and off like a tap, depending on the condition of the economic climate at the moment, if its full potential is to be realized. It is important to stress that such an objective will not be brought about by the measures outlined above: a far more extensive reorganization of support for the third sector is required.

### The Long Term

Many of the problems and inconsistencies of government policy toward support for third sector housing which have been noted in this report could have been avoided if the federal government had been truly committed to this mode of housing development. The same is true for most provincial governments.

Whatever measures governments may adopt to meet the immediate needs of groups stuck in the morass of inadequate housing programs, they will likely not address the more fundamental issues in fostering growth of the sector as a whole. Yet this issue is crucial if Canada is to overcome not only the housing problems of today but also to assure adequate housing for future generations of Canadians. Without planning it is impossible to develop a comprehensive and effective housing policy.

// To realize the benefits of long-term housing policy goals, governments must adopt a consistent approach. At present, the federal government's commitment to housing alternates between indifference, when the housing market appears to be relatively stable and in equilibrium, and panic, with the adoption of uncoordinated ad hoc measures in times of a slump. Housing

has been used all too often as a device for regulating the economy.

The problems that we have tried to show in this report to be impeding growth of the third sector in housing have roots extending into the history of Canadian housing policy, as well as government economic and monetary policy.\* Many of the problems stem from governments' historical indifference, if not antagonism, toward any form of housing tenure other than ownership and bias toward market-oriented solutions. The mortgage insurance provisions of the National Housing Act have historically been used primarily for home ownership. Until the mid 1960s most of CMHC's direct lending was for small individual homes for ownership. More recently, the assisted home ownership program has been adopted, and the federal government is pumping funds into this program at the rate of over one-half billion dollars a year. The subsidy available from the federal government to low and moderate income households under this program (up to \$600 a year on top of an 8 per cent mortgage) is about twice that offered under Section 15.1.

Rental housing of any kind has remained an unwanted stepchild. Production of rental housing for low-income households has never resulted in enough units to meet the need. Quality has generally remained low. Recent events make it seem likely that the federal government would like to reduce the size of the rental housing program even further. The interest rate to agencies using the program has been increased to 10 3/8 per cent. Furthermore, when the assisted home ownership program was first announced, it was stated in a government press release that it was seen in part as a substitute for the rent-geared-to-income (public) rental housing program. A cursory investigation of the income groups served by the two programs shows clearly that it is not.

Aside from the public housing program, the federal government's assistance to rental housing has taken the form of liberal capital cost (depreciation) allowances for rental housing and direct loans through what is now the Section 15 entrepreneurial program. The latter has a checkered history. It is government's chief pump-priming instrument for rental housing. When a housing "crisis" develops, the entrepreneurial program is reactivated. This would likely produce acceptable results if it were not for the fact that (a) projects under this program have often been of inferior quality, and (b) the rental controls on such projects can be eliminated after 15 years,

\* See, for instance, CMHC's Task Force on Low-Income Housing, Cooperative Housing: Program Review and Proposal (Ottawa: CMHC, Working Paper No. 7, 1971).

in actual practice, often sooner.

The federal government's housing policies historically have favored home ownership; rental housing has been a low priority. When there is a need for transfusion of capital into rental housing, loans to entrepreneurs have been favored because they are mutually acceptable both to the rental housing development industry and to CMHC. CMHC's effort can be limited to its mortgage lending function: it need play no role in the actual project development. This orientation of CMHC toward financing rather than the developmental aspects of housing is the result of an established and continuous political attitude formulated at the ministerial level. Therefore, as long as the government retains this attitude, CMHC's freedom to adapt its functions to better suit the needs of the non-profit sector will be limited.

If an established and thriving third sector is to be realized in Canada, the government must become more involved in the physical delivery of housing and work directly with communities that are having housing difficulties. A lot could be done for the third sector if the government would make the commitment; much has been achieved in some European and especially Scandinavian countries where this has occurred. Until government takes the initiative to do something serious for the third sector its growth will remain slow.

There are a number of ways in which the government could initiate long-term assistance to non-profit and cooperative groups. One way would be to follow up the recommendations of the international conference sponsored by the United Nations and the Danish government on housing through cooperatives (Copenhagen, October 1973). The major thrust of the recommendations of this conference called on governments to create or assist in creating an institutional framework for non-profit housing. Such an arrangement would have to recognize the unique characteristics of this type of activity with its decentralized format for decision making, its need for stable and adequate provisions for investment capital at below prevailing commercial interest rates and its desire to promote the development of projects and provide assistance for continuing management of completed projects. CMHC, although promising to meet some of these functions at present, especially with the creation of the community resource organization program, is not now committed to following this policy direction. The attempts to decentralize CMHC have not been successful and nothing has been done to give the user group control over the administration of non-profit housing.

Whatever form an institutional system takes for the third sector in



..Canada it will have to incorporate the following features if it is to have a maximum impact on the housing environment.

1. Financing. Commitments to provision of assured capital on a long-term basis must be made. In addition, the institutions created must be able to sustain themselves from contributions from third sector groups. The demise of Co-op Habitat in Quebec is a good example of the difficulty such organizations will have if their financial resources are not assured.

2. Democracy and Decentralization. Questions on the technical side of a project's development, as well as those on the social aspects, require a consensual solution. Decisions taken behind closed doors by a few executives on which projects would be developed and how would lead to dissension among local groups and result in the creation of fewer and unsatisfactory projects. Decisions have to be made in the open and must be reached by general accord. Although this might occupy more executive time than a conventional corporation it should in the long run produce better results. If management is to operate democratically with user groups this has to occur at the grassroots. Housing is such a personal social service it would be shortsighted if local objectives once articulated were ignored or contradicted. The institutions created must not only possess active membership participation, but they must also sustain local decision-making autonomy.

3. Development and Management. The functions of such institutions should concentrate in the fullest sense on developing projects. In addition to resulting in better projects such involvement will likely result in lower construction costs, as well as lower management and maintenance costs once the projects are completed. Not only should such institutions be actively involved in building housing, they could also provide assistance in managing completed projects, thus assuring continuity in the quality of the housing provided for future tenants. The involvement of institutions in land banking may also be necessary, although this depends in part on what other provincial and municipal assistance is available.

With the establishment of such institutions it should be possible for the third sector to plan its growth and establish its priorities not just in terms of cash flow but in the real terms of numbers of housing units built, converted and rehabilitated. This would show the country what can be gained from socially oriented housing solutions.

The foregoing suggestions are intended to provide a basis for discussion of the long-term prospects of the third sector in Canada. The issues are

complex. Creation of suitable institutions to serve the third sector is not easy; nor is it easy to preserve local autonomy and grassroots participation while simultaneously creating institutions that can make far-reaching decisions affecting the entire third sector. There is bound to be controversy around any institution, whether public or private, that has the authority to allocate capital. Nevertheless, these institutions must be created.

#### How Will It Happen?

Past studies of government housing policies have shown the futility of making recommendations for action. One can make recommendations ad infinitum and no action need necessarily result.

To achieve any improvements in government policies one first has to recognize the realities. The political reality is that the third sector poses a threat to the established order by offering in the long run to do more than the private sector but for less. Yet its ability to show its inherent force is inhibited at present not only by lack of government action, but also because its aims are misunderstood by the public at large. Not only are its benefits unclear, and require sophisticated description, but they also tend to fly in the face of conventional views of housing, especially those that see housing as inflation-proof saving.

However, if the way out lies in the better organization and coordination of groups active in developing non-profit housing, such activity cannot necessarily be expected to come from the groups currently expending all or most of their energies in simply surviving. These groups are too concerned with keeping their projects afloat and cannot argue effectively for reevaluation of current non-profit housing programs. At best they seek to gain the ear of top officials to persuade them that their projects warrant support. Obviously, only a limited number of groups are likely to find this strategy rewarding. Therefore, instead of looking toward groups currently active at the planning or developmental stage, perhaps one should look to the few established groups that have managed to complete their projects successfully, and those otherwise experienced in developing cooperative and non-profit housing.

Some success has already been gained along these lines in Toronto where a federation of non-profit housing groups is active. The Toronto group has been able to acquire substantial support for its activities and has been



able to present an effective case to top provincial and federal officials.

Similar success will occur at a national level only when representatives of the third sector organize to make it happen. It is in the hope that this will occur that this survey and study have been undertaken.

APPENDIX A

COPY

CENTRAL MORTGAGE AND HOUSING CORPORATION  
SOCIÉTÉ CENTRALE D'HYPOTHÈQUES ET DE LOGEMENT

*Head Office / Siège Social - Ottawa K1A 0P7, Canada*

July 8, 1974

Ms. Noreen Dunphy,  
Chairman,  
Non-Profit Housing Federation  
of Metropolitan Toronto,  
362-4 King Street East,  
Toronto, Ontario.

Dear Ms. Dunphy:

Thank you for inviting me to the June 21st meeting to discuss the Federal Non-Profit Housing Program. I acknowledge your subsequent letter of June 26th in which you seek my reply to a list of questions. I had prepared a letter confirming my comments to you at the meeting, which covered in a general way most of your questions, but in the interest of clarity I will include specific replies to your questions.

First, let me restate that the objective of the Non-Profit Housing Program is to provide adequate rental accommodation for people who need it at rents they can afford. This objective must be met within the range of special assistance offered under the program.

We believe that community and citizens organizations have an important role to play in meeting housing objectives, and we appreciate that private groups - the "third force" in housing - need extra help. The Federal Government made provision to authorize Central Mortgage and Housing Corporation to make outright grants of up to \$10,000 to assist such groups to organize and determine their objectives. 100% loans at a preferred rate of interest, together with a 10% contribution toward project costs by way of a write-down of loan repayment, may be approved. In addition, CMHC may make grants of up to \$2,500 per family unit to non-profit groups which acquire older homes in need of rehabilitation.

I think you will appreciate that since public funds are being expended to provide these loans, grants and other contributions, I am accountable to Parliament to see that these funds produce accommodation which is less costly per month than that produced by profit-making enterprises which do not receive government subsidies.

. . ./2

The social housing program is working well and is utilizing all three sources we can find. Currently we have \$1 billion budgeted for social housing which is being effectively used throughout all of our programs by agencies, groups and individuals committed to the provision of housing for low and moderate income persons. The non-profit community group's prime objective is complementary to our objective and is beginning to work well, as evidenced by the \$127 millions of dollars that we have committed to non-profit groups since the legislation was initiated last June.

You cite as a secondary objective a strong emphasis on the preservation of existing neighborhoods. The Non-Profit Program was never intended to achieve objectives such as the preservation of a particular group of houses, or the stabilization of a particular neighborhood, or to serve some other urban planning objective. Certainly it is gratifying when one or more of these other objectives can be fulfilled while still achieving the primary objective of the program, but such occasions will be rare in the inner cities and in high cost areas. We recognize the importance of these other objectives, but such other objectives can be met only through other measures.

For example, under the Neighbourhood Improvement Program, small pockets of blight within designated areas can be cleared and the land made available for non-profit housing. Any required write-down on the land is a charge against the cost of the Neighbourhood Improvement Program and the non-profit housing group could acquire the land on a leasehold or freehold basis at a reasonable price. We do not have, under the NHA, provisions to assist inner-city redevelopment programs with deep subsidies and at the meeting I indicated that the possibility of such a program will be considered by CMHC to complement the assistance we now have under the Neighbourhood Improvement Program. Such a program would require Parliamentary approval. In the meantime, the non-profit groups should concentrate on achieving the objective of lower cost housing where it is possible, within the current subsidies provided for this specific objective, or in association with the Neighbourhood Improvement Program, and not attempt urban renewal until deeper subsidies are available which are capable of coping with that objective.

We are pursuing the proposal of land lease to non-profit groups with a land cost write-down provision. As I stated during our meeting, we will require Parliamentary approval of funds to undertake such assistance.

I believe I have dealt with your first four questions concerning objectives, the level of assistance, land write-down, and preservation of neighborhoods as related to the non-profit housing program.

We appreciate the problem that some non-profit community groups have in securing interim financing. We are considering ways to speed up project approval authority so as to ease the problem of interim financing relevant to the acquisition of existing housing. For new construction, we expect field offices to make available loan progress advances as soon as work in place is accepted. Therefore the time lapse between construction cost and financing can be minimal.

The application for financial support from the Labour Council Development Foundation is being assessed in relation to guidelines and budgetary priorities to determine its place in relation to other requests from organizations also seeking support under the Community Resource Organization Program.

We are reviewing our administrative procedures, including appraisal techniques for all of our programs, to ensure they are equitable and efficient and serve the objectives of every program. We do include any provincial subsidies in assessing the viability of projects. Loan ceilings have recently been raised for the Toronto market, and are now \$40,000 per family housing unit with the exception only of rental apartments which remain at \$20,000.

If we are to succeed in speeding up project approval, I agree we should publicize the necessary project criteria. This we intend to do. We will also review our position with respect to the Corporation's status on the Provincial Non-Profit Committee.

We value the contribution which organizations such as yours are making to the solution of some of our housing problems because of your close links with the community and your understanding of people's needs. The Non-Profit Housing Program, including its more recent benefits and modifications, is the Federal Government's explicit support to you in this work and where we can jointly determine more effective ways of reaching program objectives, we will not hesitate to adopt them.

We recognize that housing at a price people can afford, within a satisfying community environment, is a difficult and worthwhile social challenge. All groups face the same higher costs, etc., and the same challenge. We treat each group and application equitably, with the objective of supporting those applications which produce rents and social advantages which reflect the benefit of public assistance.

I have found this exchange of views very helpful in understanding your approach to your work and your particular difficulties. I hope I have been able to clarify for you the ways in which the Corporation and the National Housing Act can serve your purposes.

I am taking the liberty of sending a copy of this letter to the groups who attended our meeting.

Yours sincerely,

Signed by:

William Teron,  
President.

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